UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/51/950/Add.4
31 October 1997

ORIGINAL: ENGLISH

Fifty-second session
Agenda item 157
United Nations reform: measures
and proposals

RENEWING THE UNITED NATIONS: A PROGRAMME FOR REFORM

Report of the Secretary-General

Revolving Credit Fund

97-30216 (E) 061197

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Introduction

1. The present paper elaborates the proposal of the Secretary-General for the establishment of a Revolving Credit Fund (see A/51/950 of 14 July 1997, paras. 220-222, and the related recommendations).

Background

2. The United Nations has experienced recurrent financial crises owing to a large and growing volume of arrears of payments. Notwithstanding the legal obligation of Member States to pay their assessed contributions in full, on time and without conditions and a major effort by many Member States to meet those obligations, the situation has continued to persist. As a result, the Organization's financial reserves have been depleted and the Secretary-General has been obliged to borrow from peacekeeping accounts to meet regular budget requirements. This method of financing, which may well not be available in future, as the level of peacekeeping activity and assessments declines, has meant serious delays in reimbursing Member States for troop and equipment costs. The resulting precarious financial situation of the Organization also diverts attention from its substantive work and undermines efforts at reform. Only a real commitment by Member States to meet their obligations fully will overcome the financial problems of the Organization and, in his report, the Secretary-General has challenged Member States to put forward ideas to encourage Member States to pay their dues on time and to restore the financial solvency of the Organization.

Proposal for establishment of the Revolving Credit Fund

3. In the absence of adequate capital and reserves, the Secretary-General has indicated that it is essential to find immediate practical measures to complement the ongoing search for a more fundamental solution of the financial problems of the United Nations. In this context, he has proposed that a Revolving Credit Fund be established, initially capitalized at a level of up to $1 billion through voluntary contributions or any other means of financing that Member States may wish to suggest. Such a fund could be used by the Secretary-General to finance, on a recourse basis, any newly arising overdue assessment payments of Member States.

4. Establishment of the Fund would also involve a change in the financial arrangements set out in the Financial Regulations and Rules of the United Nations, requiring approval by the General Assembly.

Advances from the Revolving Credit Fund

5. The Financial Regulations provide that assessed contributions shall be due and payable in full within 30 days. Under the procedures proposed for the Revolving Credit Fund, the Secretary-General could, consistent with the purpose of the Fund, notify any Member State that certain assessments had fallen past due by 90 days and would ask the Member State to specify the future date of payment of the amount. This notification from the Secretariat and subsequent response from the Member State would be in such legal form as to allow the Secretary-General to pledge it as security for an advance from the Fund.

6. Upon receipt of a response from a Member State so notified, the Secretary-General could authorize, at such time and in such amount as he deemed appropriate, an advance from the Revolving Credit Fund up to the amount of the unpaid assessed contribution in question. It should be emphasized that such an advance would not constitute payment of the assessment in question and would not affect the application of Article 19 of the Charter of the United Nations to the Member State in question.

7. Upon receipt of the notified amount from the Member State concerned, the amount of the related advance would be returned to the Revolving Credit Fund. Consistent with the Financial Regulations, contributions received would still be applied against the oldest outstanding assessments in the Organization's accounts, although advances from the Fund would be repaid as soon as the notified contribution was received in the appropriate account.

8. The purpose of the Revolving Credit Fund would be to relieve cash flow pressures on the functioning of the United Nations. Accordingly, it is intended that the procedures outlined for the Fund would only be used in respect of outstanding amounts greater than $250,000.

Income of the Revolving Credit Fund

9. Any cash balances in the Revolving Credit Fund would be invested and the income and capital gains/losses added to the Fund. Initially, it is anticipated that such investment would be short-term only but, depending on the position of the Fund, the Secretary-General could authorize longer-term investments, consistent with the liquidity requirements of the Fund. In that event, he would seek the advice of the Investments Committee.

Authorized retained surpluses

10. Use of the Revolving Credit Fund for advances against unpaid assessed contributions of Member States would reduce the income to the Fund from the investment of cash balances. Member States, against whose unpaid contributions advances have been made from the Fund, would bear the opportunity cost of financing such advances from the Fund. This would be done first through adjustment of amounts owed to them by the Organization for prior year surpluses not yet reimbursed, up to the level of their share of such surpluses. Conversely, the surplus balances of Member States providing voluntary contributions to the Fund would be adjusted accordingly. The cost of financing advances in amounts exceeding the accumulated surpluses would however not be allowed without General Assembly agreement.

11. At 31 December 1995, authorized retained surpluses stood at just over $200 million, as follows:

	Millions of United States dollars
General Fund	68.4
United Nations Disengagement Observer Force	49.6
United Nations Interim Force in Lebanon	82.9

12. In order to simplify the mechanism for operating the Revolving Credit Fund, it is proposed that the authorized retained surpluses referred to above, as well as any others that the General Assembly may from time to time authorize, be consolidated in a new single retained surpluses account.

13. It is proposed that, consistent with current practice for the regular budget, the shares of Member States as regards authorized retained surpluses should be allocated by applying the current regular budget and peacekeeping scales to the currently retained surpluses. Should any surpluses be added to the retained surpluses account in future, these could be allocated between Member States, using relevant scales of assessment then in force.

14. Adjustments to the shares of Member States in the retained surpluses would be made annually. Negative adjustments would be made in the shares of Member States against whose arrears advances are made from the Revolving Credit Fund, up to the full amount of such shares. These would be based on the amount and period of advances from the Fund against unpaid assessed contributions of each Member State concerned and the rate of return available on cash balances in the Fund, that is, the opportunity cost of making such advances. Corresponding positive adjustments for Member States contributing to the Fund would be based on the amount of their contribution and the date on which it was available to the Fund.

Conclusion

15. The Secretary-General advances this proposal as one approach to tackling the chronic financial problems that have plagued the United Nations. He reiterates, however, his challenge to Member States to suggest other measures to overcome these problems.